

Weekly Review<?xml:namespace prefix = o ns =
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In a pattern that may be becoming monotonous (no complaints from me), the price of silver finished higher for the week by 45 cents. As a result, the daily and weekly silver close was the highest in 31 years. These mileposts were achieved despite an early Friday intentional smack down, courtesy of the COMEX commercial crooks at the high-frequency computer trading controls. Gold, also a victim of Friday morning's disruptive trading came back as well, but not enough to avoid recording a slight \$1 loss for the week. Silver's relative outperformance to gold resulted in a new multi-decade low in the gold/silver ratio of just below 38 to 1.

I know silver is "too high." I know the gold/silver ratio is "too low." I know more commentators than ever say there will be a severe correction. I know we certainly could get that correction. But I also know that the preponderance of the evidence still indicates we could move much higher in the price of silver and much lower in the gold/silver ratio. As I indicated in Wednesday's article, investment flows and awareness of the silver manipulation promise to rewrite the price standards the world has grown accustomed to in regards to silver and its relationship to gold. Despite widespread feelings that the gold/silver ratio is out of whack, I believe it is still not too late for gold investors to switch to silver.

Thursday marked the end of the first quarter, in which silver climbed 22% and gold 1%. This comes after two years in which silver outperformed gold by a factor of three. While there is growing awareness of silver's impressive outperformance to gold, it still has not prompted an aggressive move into silver by the big macro-hedge funds. These funds are prime candidates to flood into silver, either with new money or by switching some of their large existing gold holdings. As these things work out frequently, the first well-known hedge fund that moves into silver may trigger a follow the leader situation, much like has previously occurred in gold. Were that to happen, the price impact on silver, given how tight supplies have become, should be profound.

Conditions in the physical silver world still continue to suggest tightness. The frantic pace of movements into and out from the COMEX warehouses has continued. SLV silver holdings remain at a record, up for the quarter; while GLD gold holdings are substantially lower year to date. The Central Fund of Canada announced a new offering of shares, for the first time in a year, which will result in more than 4 million ounces of silver bullion being taken off the market. Here's an observation that I can't help but mention. Whenever the Central Fund makes an announcement of new shares, the very first thing that almost everyone does is to calculate how much silver will be purchased, how long will it take for the silver to arrive and what impact that might have on the silver price. Even though 50% of the new money is used to purchase gold, I've never heard a

comment as to what impact the Fund's purchase might have on gold's price or when the gold will arrive.

Retail demand continues strong for silver. Curiously, the US Mint announced that Silver Eagle sales slipped under 3 million ounces for the month of March (although sales for the quarter set a new record). The Mint's run-rate of production and sales of Silver Eagles, estimated by me to be as much as 115,000 daily, fell short in the past month. Yet it does not appear that demand had cooled. Widespread reports of unavailability of Silver Eagles and unprecedented premiums per coin suggest that the Mint just can't keep up with demand; perhaps because of an insufficient supply of blanks. What makes this noteworthy is that the Mint is required by law to produce and sell silver (and gold) bullion coins in sufficient quantity so as to satisfy demand.

This week's Commitment of Traders Report (COT) was as expected in silver, but was somewhat surprising in gold. Silver came in as close to unchanged as is possible, with changes of a hundred contracts in almost every category; the total net commercial short position, the big 4 and 8, and the raptors. I was hoping for such a report, but was bracing for more of deterioration, as we were up over 80 cents for the reporting week. In other words, silver prices advanced for the reporting week to new highs, with no notable speculative buying or commercial selling. This shows that the talk of silver being in the grip of a speculative buying frenzy (or even a bubble) is just that □ talk.

Admittedly, we're not at the drop dead low levels of speculative buying and commercial selling typically witnessed after a major wash out in price to the downside. But neither are we close to the euphoric high levels of speculative longs/commercial shorts seen at previous major silver price highs. If we do sell-off, it will undoubtedly be due to a commercial manipulative rig job to the downside; but it would be wrong to characterize the COT structure in silver as screaming danger.

I'd like to address the COT structure of silver in broader terms. I do believe that speculation can influence price and that this is a matter that the regulators should be very concerned with. When I look at the COT structures in various traded commodities, the speculative long (and commercial short) positions concern me. Commissioner Bart Chilton has, much to his credit, been outspoken about the speculative levels in certain important commodities, like crude oil and corn and soybeans. Chilton is correct; due to the massive passives (as he calls the index funds) or the technical funds, we have record buying speculation in crude oil and other key commodities. Only a fool would deny such buying has influenced prices higher and threatens to cause a severe sell-off if and when those positions are unwound. Commissioner Chilton is also correct that such unbridled speculation should be restricted by position limits. (A number of years back, I proposed that not only should there be legitimate position limits on individual traders, separate position limits should be placed upon categories of

traders who act alike, like the massive passives and the tech funds).

But whereas Commissioner Chilton is correct that record speculative long futures positions exist in crude oil and corn and are a big factor in the current high prices, this is not true in silver. The current record high prices in silver have not been driven by record long speculation in futures. While speculative crude oil positions are two and three times higher than they were at \$147/barrel in 2008, silver speculative long positions are 20% lower than they were in the summer of 2008. In addition, while there is no discernable concentration of positions in oil or other important commodity, the concentration on the short side of COMEX silver is a national disgrace. Anyone trying to pin high silver prices on the speculative longs has got a fancy song and dance routine of an explanation in front of him.

In gold, the COTs deteriorated, as the total commercial net short position jumped by 16,000 contracts to almost 241,000 contracts. At first, this may seem odd, as prices for the reporting week fell by \$10 or so, but please remember that we had two high-volume probes above the \$1440 mark early in the reporting week. There were a number of oddities that may mitigate against the increase in the commercial short position in gold being bearish. For one, the big four gold shorts actually reduced their short position by more than 7400 contracts, to their lowest level since Sep 2009, when gold traded around \$950. Clearly, these big traders are not positioning themselves for a big move down in

gold. The gold raptors accounted for the biggest increase in the commercial short position and there is a dichotomy between the gold raptors positioning for a move down and not the big 4. Finally, the high-volume and intentional takedown yesterday morning appeared to me to have reversed the 16,000 contract increase in the current COT. Bottom line □ the gold COTs still look neutral to me.

There was one new development this week that I don't think applies to any subscriber of this service, but I want to mention it just in case it may apply. The Perth Mint of Australia announced that it was discontinuing, effect May 1, 2011, new deposits in its unallocated silver certificate program (gold was unaffected). They explained that there was more than enough silver in the program to cover their normal processing and manufacturing needs (although they did not specify the quantities involved).

<http://www.perthmint.com.au//documents/2011-0322084314450.pdf>

The basic attraction for the unallocated silver program at the Perth Mint was that no storage fee was charged to the investor. Over time, that can be an important investment consideration. Long-time readers may know that I had written on this issue previously and was the first to alert the public to what I perceived as the danger of holding unallocated silver in such accounts. Here's an article from more than four years ago

<http://news.silverseek.com/TedButler/1170190859.php>

Simply put, I don't believe there is sufficient silver backing unallocated silver investment programs and that one horrible day that would become apparent. But then it would be too late for investors in such programs. I base my belief on the common sense principle that there is no free lunch. There is no one in the business world looking to give you anything for free. The only reason anyone could offer free storage is that there was nothing to store. To those reasons and the reasons I offered in my Buyer Beware article, let me offer another. If what the Perth Mint was offering was the win-win it was claimed to be, then why aren't there numerous operations that use silver in their manufacturing process also offering the same deal of allowing investors to jointly "invest" in their silver inventories for no fee?

I do not intend to make this a public issue at this time. There are more important issues concerning the silver manipulation and position limits. Besides, I realize that no one elected me the silver policeman of the world and I have already had my say on this matter. But it would break my heart and make me feel negligent if I didn't offer the strongest warning possible to any subscriber who might still hold unallocated Perth Mint silver certificates. So here's my warning. Get out and convert to a different form of silver investment. No, scratch that. Get out now. No, scratch that again. Get the hell out right now.

What if I'm dead wrong and have completely misjudged these programs? After all, I'm aware that at least one authorized US dealer for the Perth Mint unallocated silver program is urging its clients to rush to deposit more before the May 1 deadline to get grandfathered on the no storage fee deal. What will I have cost you if I'm off-based in my warning and you unnecessarily switch to another form of stored silver, like an ETF? Well, the typical fee for storing silver runs about 0.5% annually. So, if you switch from the unallocated program I am warning you about into a vehicle that charges 0.5% per annum, at the end of 3 years, you will have paid 1.5% in storage fees (not to me, of course, but to whomever is storing your silver). If nothing goes wrong, over three years you'll be out 1.5% for having made the switch. Weigh that against the potential of a total 100% wipeout. I'm not going to devote more time to this here, but if any subscriber needs further convincing, please don't hesitate to contact me.

I'm planning (barring no last-minute developments) a piece on what I think may be going on behind the scenes in silver at the very highest levels that will necessarily involve a good deal of speculation on my part. Included will be a very constructive solution provided by my good friend and silver mentor, Izzy Friedman. Izzy actually came up with his solution years ago, but I think that it may prove practical today. In the meantime, the advice for silver investors remains the same □ hold tight as we approach the resolution stage of the silver manipulation on many fronts. That's been the best advice possible so far and I believe the facts suggest that will remain the best advice in the future.

April 2, 2011 - Weekly Review

Ted Butler

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Silver - \$37.75

Gold - \$1428